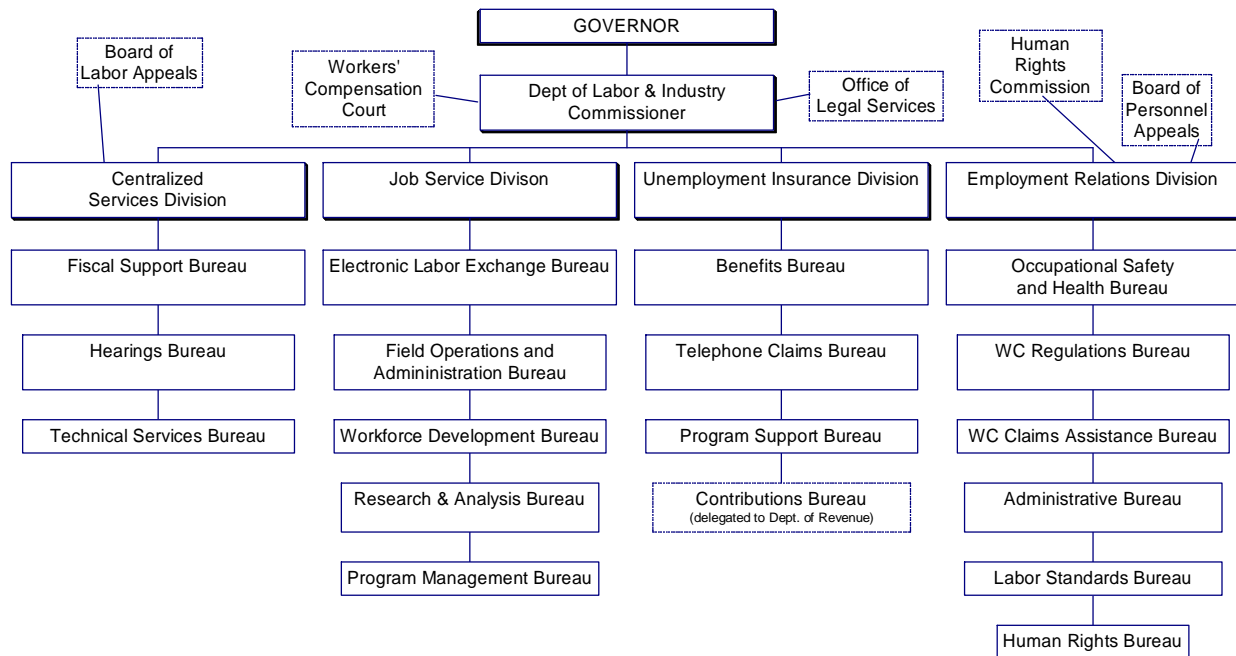
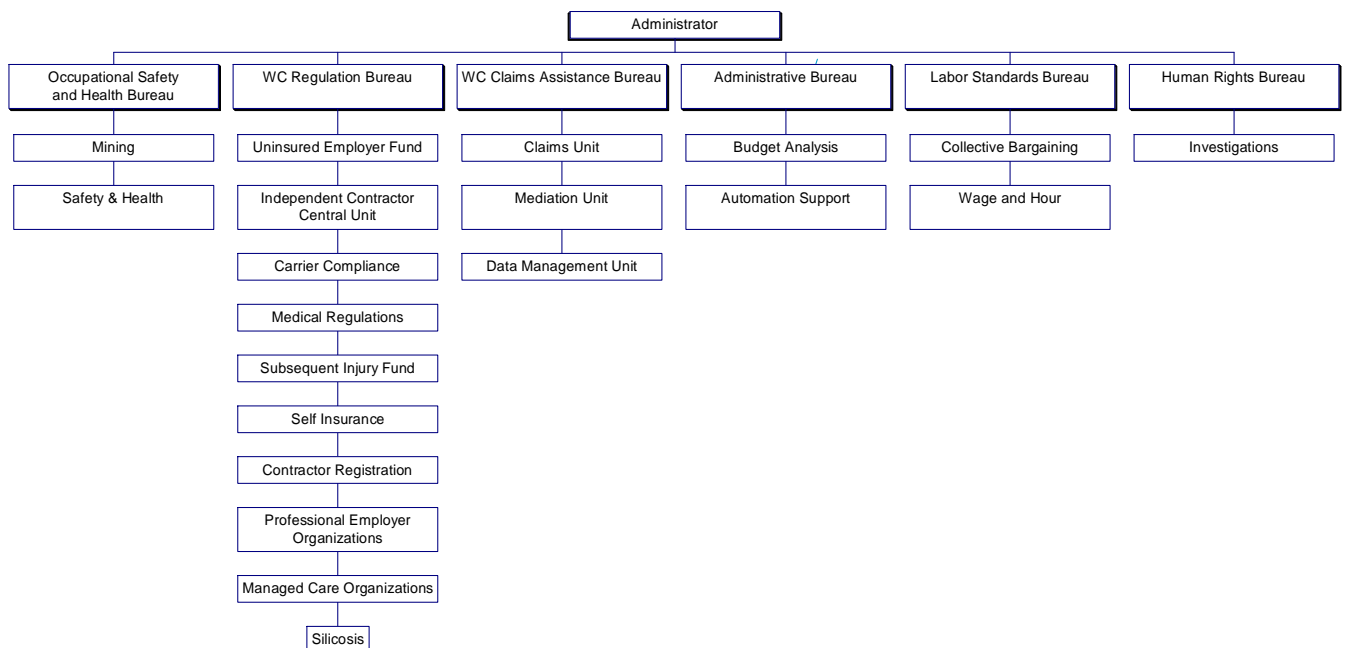


Organizational Charts

Montana Department of Labor & Industry



Montana Department of Labor & Industry Employment Relations Division



Regulatory Assessments

The administration of the Workers' Compensation and Occupational Disease Acts and the various occupational safety laws is funded by an assessment to Plan 1 (self insured employers), Plan 2 (private insurance carriers), and Plan 3 (Montana State Fund). Section 39-71-201, MCA, requires the administrative assessment to be three percent of benefits paid during the preceding calendar year for injuries covered under the Workers' Compensation Act and the Occupational Disease Act, without regard to the application of any deductible, whether the employer or the insurer pays the losses. Benefits included in the calculation are: (1) compensation benefits paid and (2) medical benefits paid (except payments in excess of \$200,000 per occurrence, which are exempt from the assessment).

Regulatory functions performed by the Department of Labor and Industry

- Legal functions of the Workers' Compensation Court and the Hearings and Legal Bureaus;
- Administration of the Employment Relations Division, including the Workers' Compensation Database;
- Claims management, data analysis, rehabilitation panels, mediation and administration functions of the Claims Assistance Bureau;
- Medical regulation, self-insurance, carrier compliance, Professional Employer Organizations, Managed Care Organizations and administration functions of the Workers' Compensation Regulation Bureau; and
- Occupational safety statistics, mandatory inspections, on-site consultation grant match, mining inspection, mine training grant match and safety culture functions of the Occupational Safety and Health Bureau.

Regulatory Assessments By Fiscal Year

FY99	FY00	FY01	FY02	FY03
\$3,963,315	\$4,070,937	\$3,950,660	\$4,387,058	\$4,512,300

Subsequent Injury Fund

The Subsequent Injury Fund (SIF) was established by legislation passed in 1973. The purpose of the SIF is to assist individuals with impairments to obtain employment by offering a financial incentive to employers for hiring SIF-certified individuals. Many states have similar funds called either subsequent or second injury funds. Montana's program is funded through an annual assessment on Plan 1 employers and an assessment surcharge against policyholders insured under Plan 2 and Plan 3.

The law defines "person with a disability" as a person who has a medically certifiable permanent impairment that is a substantial obstacle to obtaining employment or re-employment. Also taken into account are such factors as the person's age, education, training, experience and employment rejections.

The SIF program reduces the liability of the employer by placing a limit on the amount an employer, or the employer's insurer, will have to pay if the worker becomes injured or re-injured on the job. When that limit is reached, SIF assumes liability for the claim. If a certified worker does become injured on the job, the worker remains entitled to all benefits due under the Workers' Compensation and Occupational Disease Acts.

There were 194 new SIF certifications during FY03 bringing the total to 3,229 SIF certified individuals in the state of Montana.

The assessment surcharge is based on a percentage of the compensation and medical benefits paid in Montana by each insurance plan in the preceding calendar year. The rate is set by the Employment Relations Division based on the total amount of paid losses reimbursed by the fund in the preceding calendar year and the expenses of administration, less other income.

SIF Payments and Dollars Assessed² By Plan Type¹ and Fiscal Year

Plan Type¹	FY99		FY00		FY01		FY02		FY03	
	Payments CY97	Assessment FY99	Payments CY98	Assessment FY00	Payments CY99	Assessment FY01	Payments CY00	Assessment FY02	Payments CY01	Assessment FY03
Plan 1	\$49,938	\$6,134	\$134,228	\$19,804	\$42,200	\$0	\$18,819	\$0	\$180,361	\$99,700
Plan 2	\$74,675	\$11,425	\$101,196	\$102,699	\$16,195	\$0	\$9,580	\$0	\$43,294	\$19,854
Plan 3	\$112,575	\$20,399	\$0	\$22,524	\$549	\$0	\$170	\$0	\$12,461	\$381
Total	\$237,188	\$37,958	\$235,424	\$145,027	\$58,944	\$0	\$28,569	\$0	\$236,116	\$119,935

Note:

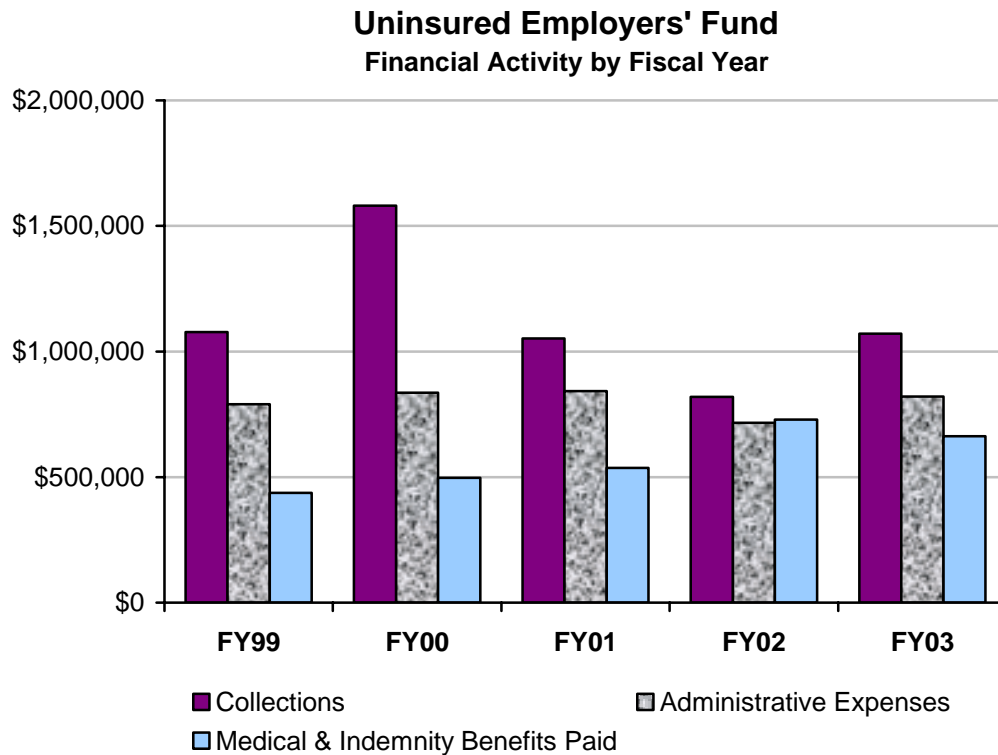
¹Plan types: Plan 1 – Self-Insured Employers, Plan 2 – Private Insurance and Plan 3 – Montana State Fund

²An adjustment has been made from the prior years report to reflect the appropriate calendar year payments and fiscal year assessments.

Uninsured Employers' Fund

The role of the Uninsured Employers' Fund (UEF) is to provide benefits to employees injured on the job while working for an uninsured employer. Another prime concern of the UEF is to ensure employers comply with workers' compensation laws so employees are properly covered.

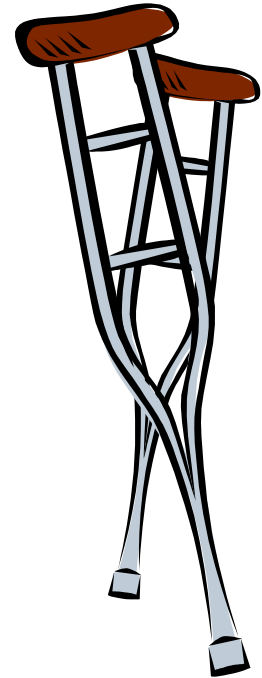
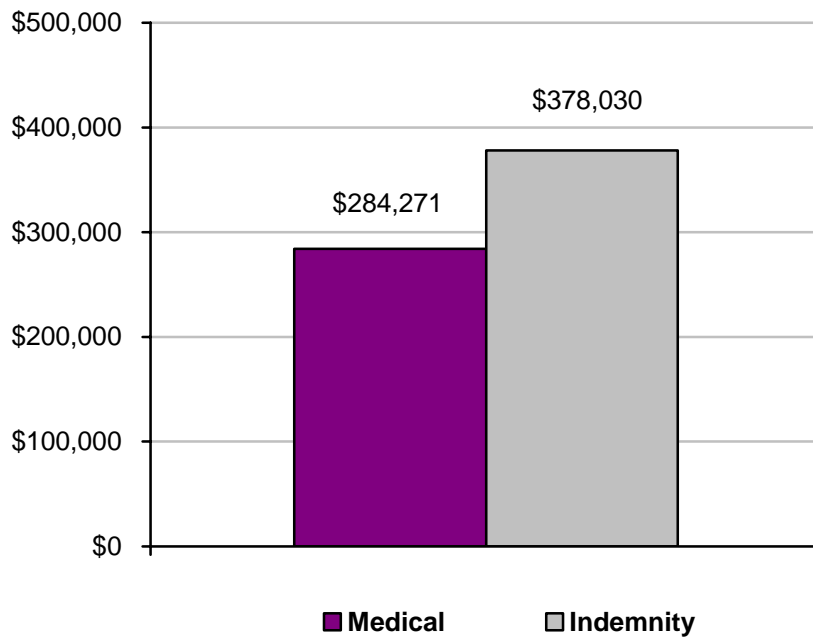
The UEF Unit also levies and collects penalties for the time the employer was uninsured. They may require the uninsured employer to pay a penalty to the fund. Penalties can be double the insurance premium that would have been paid by the employer, or \$200, whichever is greater.



Uninsured Employers' Fund
Financial Activity by Fiscal Year

	FY99	FY00	FY01	FY02	FY03
Collections	\$1,077,146	\$1,580,000	\$1,051,941	\$816,467	\$1,071,012
Administrative Expenses	\$790,077	\$836,664	\$842,702	\$716,409	\$820,898
Medical & Indemnity Benefits Paid	\$436,992	\$497,201	\$535,027	\$582,716	\$662,301

UEF Medical and Indemnity Payments - FY03



UEF Medical and Indemnity Payments By Fiscal Year

	FY99	FY00	FY01	FY02	FY03
Medical	\$143,807	\$168,534	\$263,017	\$258,505	\$284,271
Indemnity	\$293,185	\$328,667	\$272,010	\$324,211	\$378,030
Total	\$436,992	\$497,201	\$535,027	\$582,716	\$662,301

The Uninsured Employers' Fund recorded claims from 73 workers who were injured in FY03 and whose employers were uninsured.

Occupational Safety & Health

The goal of the Occupational Safety and Health Bureau is to prevent employee illnesses and occupational injuries by enforcing the intent of the various Montana safety statutes and to support federally funded Occupational Safety and Health Administration (OSHA) voluntary programs in the private sector. This involves mandatory workplace safety inspections in coalmines, sand and gravel operations, and in public sector workplaces such as city, county, state governments and schools. Non-mining private sector employers are covered by federal OSHA requirements with regard to inspection activities. The ultimate goal of all activities of the Bureau is to reduce worker injuries and illnesses and lower workers' compensation premiums.

The Bureau inspects public workplaces and issues orders for correction of hazards to provide a safe and healthy work environment. Federal OSHA requirements preempt inspecting private places of business, but on-site consultations are available to private employers upon request, thanks to a grant from OSHA.

Mining inspections are conducted on surface and underground coalmines in addition to sand and gravel operations throughout the state. These mines are required to comply with safety and health standards in the mine safety statutes. The Bureau has no enforcement jurisdiction in metal/nonmetal mines, which fall under the auspices of the Federal Mine Safety and Health Administration (MSHA).

MSHA has provided the Bureau with a training grant to conduct safety training for employers and employees of small mines. Mine operators are assisted in developing acceptable training plans so that their employees recognize hazardous conditions in mining operations.

The Safety Culture Act, §39-71-1501, MCA, requires employers in Montana to implement an education-based safety program in each place of employment. Employers with more than five employees are also required to have active safety committees.



Occupational Safety & Health Activities - FY03

Occupational Safety & Health						Employer Sector				
	Public					Private				
	FY99	FY00	FY01	FY02	FY03	FY99	FY00	FY01	FY02	FY03
Mandatory Inspections Performed	243	250	341	223	239	--	--	--	--	--
On-site Inspection Performed	--	--	--	--	--	169	207	142	214	275
Requests for Technical Assistance	344	292	479	363	540	437	356	438	447	758
Formal Training Sessions Conducted	34	24	44	120*	48	34	61	45	153*	72
Workers Trained	757	572	1,048	811*	798	1,404	608	598	1097*	1,702

*These numbers have been updated from last year's annual report.

Mining Section						Sand & Gravel Operations				
	Coal									
	FY99	FY00	FY01	FY02	FY03	FY99	FY00	FY01	FY02	FY03
Inspections Performed	42	32	38	31	38	146	160	172	174	84
Mine Training Sessions Conducted	17	11	19	15	13	78	61	79	111	97
Workers Trained	770	156	302	497	200	844	864	1,436	1,512	1,679
Coal Mine Foreman Training Sessions Conducted	2	1	--	3	6	--	--	--	--	--
Coal Mine Foreman Trained	18	11	9	19	40	--	--	68	--	--

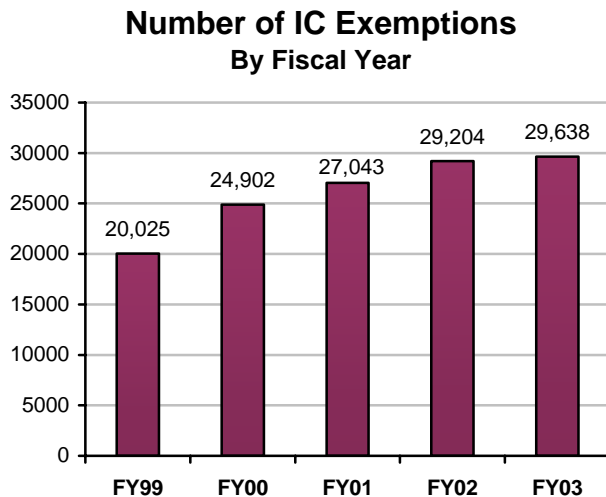
The Montana Department of Labor and Industry, Occupational Safety and Health Bureau, has established a schedule of training offered by its *Occupational Safety and Health Training Institute*. Traditionally the Bureau had offered training courses throughout Montana on a reactive basis. This caused scheduling problems, not only for the instructors, but also for those interested in being trained in the various OSHA standards. By setting places, dates and times of training opportunities, the employer and employee can plan schedules well in advance in order to attend. No tuition fee is charged for these courses.

The *Institute* provides basic and advanced training courses in safety and health. Course subject matter includes hazard recognition, state and federal policies and standards and hazard abatement techniques. Courses are designed to build a more effective workforce and to aid in the professional development for Montana employers and employees.

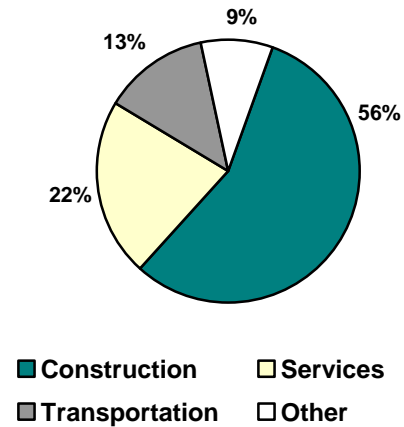
The *Institute* maintains a record of courses successfully completed by each student. These records are useful to both the student and the employer in demonstrating the commitment to a safe and healthy workplace environment. Certificates are issued to those successfully completing the various courses.

Training Institute		FY03
Training Sessions		48
Workers Trained		798
Local Focus Groups		FY03
Training Sessions		72
Workers Trained		1,702

Independent Contractor Exemptions



**Percent of IC Exemptions - FY03
By Industry**



Workers' compensation laws require individuals who hold themselves out as independent contractors to have workers' compensation insurance on themselves or obtain an Independent Contractor Exemption certificate. A sole proprietor, working member of a partnership, or a working member of a member-managed limited liability company may apply for the exemption. Corporate officers are considered employees of the corporation and do not qualify for the exemption, as well as managers of a manager-managed limited liability company.

Independent contractor exemptions are issued to individuals for a two-year period. The exemption identifies individuals who have informed the department they are independent contractors.

The department received 5,472 independent contractor exemption applications during FY03. There were a total of 29,638 active independent contractor exemptions.

The number of active independent contractors (ICs) has increased since the exemption was first enacted in 1983, although not significantly since last year. The majority of the exemptions continue to be in the construction industry (56%), the service industry (22%), and transportation (13%). In FY02, the construction industry held 50% of the exemptions, the service industry 20% and transportation 16%.

The department audits renewal applications. The audit process determines if the applicants have truly established a business. Applicants unable to show proof of business to the department are denied the IC exemption. In FY03, there were 1,707 audits resulting in 93% being approved for renewal. The audit requests the applicant to provide proof of tax filing as a business, proof of servicing more than one contract, proof of advertising and/or proof of insurance. They may provide any other information that verifies they are truly independent contractors. All applicants are aware when they sign the affidavit that they may be requested to provide this information.

The Montana Supreme Court has held that those who hire independent contractors have a responsibility to assure they are treating the individual as an independent contractor. This means the hiring agent must not exert control over the performance of the person's work other than to achieve a bargained for end result. In addition, they should assure the independent contractor is established in an independent occupation, trade or profession. Simply reporting the individual as an independent contractor and obtaining a copy of their exemption is not enough to protect them from liability under the Workers' Compensation and Occupational Disease Acts.

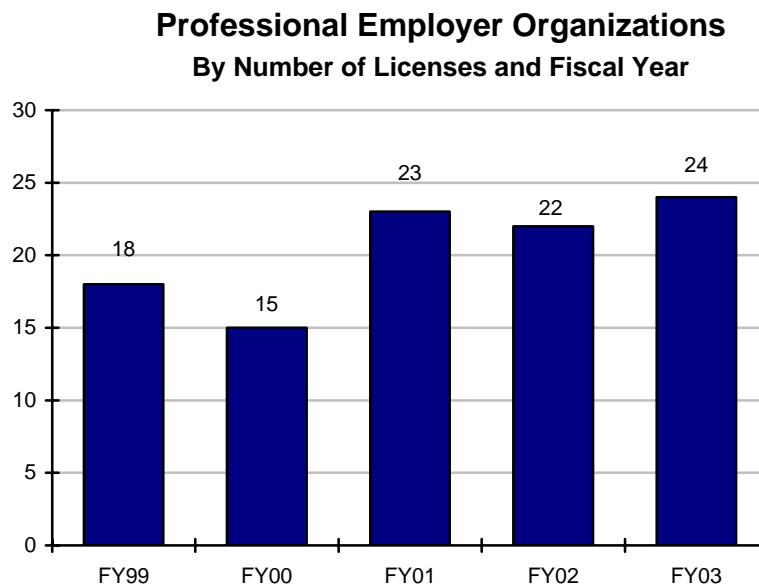
Senate Bill 270 (SB270) created a committee to review the independent contractor exemption issues that face Montana today. The committee's membership includes individuals from the business community, workers' compensation insurers, building contractors, labor organizations, and the Department of Labor & Industry. The primary question this committee is assigned to answer is, "How can we provide certainty to those who hire individuals as independent contractors that those individuals will not be considered employees, while at the same time assure that all employees are provided the protections they are entitled to under Montana law?"

For more information on independent contractors in Montana, visit the website at www.mtcontractor.com.

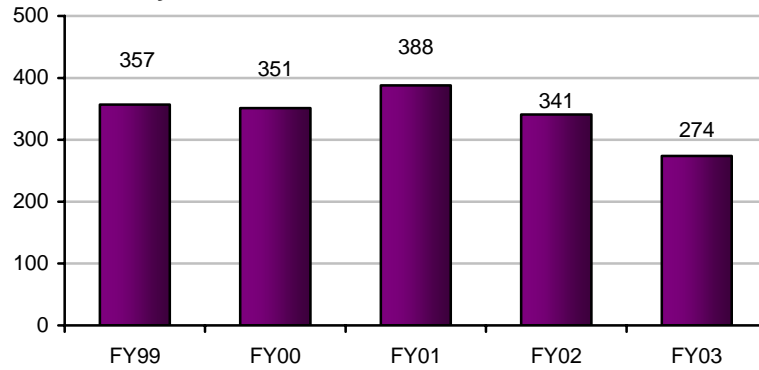
Professional Employer Organizations

Professional Employer Organizations (PEOs) are required to be licensed by the Department of Labor and Industry prior to operating in Montana. A PEO is a business that leases employees to other businesses, while managing the paperwork responsibilities associated with having employees. PEOs are the employer of record and are to pay employee wages, workers' compensation premiums, payroll-related taxes and employee benefits from their own account without regard to payments by the client. The client companies, in return, pay the PEO for employee costs plus an administrative fee. The client company is sometimes termed a co-employer. A client is a person who obtains all or a part of its workforce from another person through a professional employer arrangement.

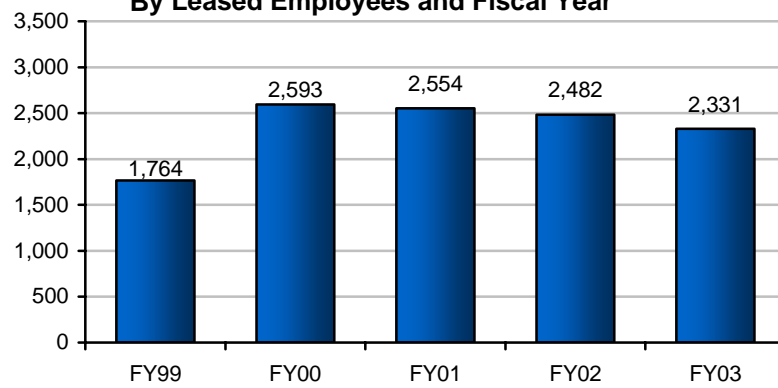
In FY03 there were 24 licensed PEOs in Montana. A total of 274 client companies leased their workforce and 2,331 employees were leased from PEOs.



**Professional Employer Organizations
By Number of Clients and Fiscal Year¹**



**Professional Employer Organizations
By Leased Employees and Fiscal Year¹**



¹Data Source: POINTS – (Process Oriented Integrated Tax System, Department of Revenue - Unemployment Insurance Division)